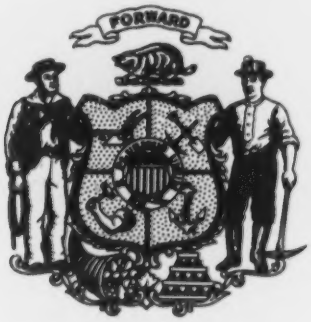
WISCONSIN

ANNUAL FISCAL REPORT 1987

Annual Fiscal Report

For The Year Ending June 30, 1987



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
STATE BUREAU OF FINANCIAL OPERATIONS

WISCONSIN

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STATE OF WISCONSIN
1987 ANNUAL FISCAL REPORT
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APPENDIX

- D.1 Detail of State Government Operations. This has been issued as a separate document containing Exhibit B-3 above (Summary of Operations by Function) and Schedules A-1 through A-8 (Summaries of Operations by Individual Functional Areas). Copies of the appendix are available on request to:

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October 9, 1987

The Honorable Tommy G. Thompson
Members of the Legislature

This report presents condensed statements on the financial operations of the State of Wisconsin for the fiscal year that ended June 30, 1987. It shows the major sources of revenue, the broad purposes of expenditures, and the condition and comparisons of funds with the prior year. The independent opinion of the State Auditor is included.

Fiscal Year 1987 will close with an unreserved balance (surplus) of $232.7 million in the General Fund. This is $44.4 million higher than the $188.3 million estimate which was projected in 1987 Wisconsin Act 27 (the 1987-89 biennial budget bill) enacted on July 31, 1987. The variance is primarily the result of slightly higher tax receipts ($19.7 million), higher departmental revenues ($9.1 million) and higher appropriation lapses ($11.0 million) than was previously estimated.

This ending balance exceeds by $159.8 million the required balance of $72.9 million statutorily mandated for the end of the biennium.

General Fund general purpose revenue (GPR) tax receipts were $4.955 billion for the year compared to $4.776 billion in the prior year, a $179 million or 3.7 percent increase. For comparative purposes, this increase does not include a $28.2 million utility tax refund paid out early in the year which for accounting purposes was treated as a non-recurring item. Actual departmental revenues in the General Fund decreased over the prior year from $75 million to $72.6 million. However, this category also includes the one-time appropriated transfer of $17.5 million from the Transportation Fund, bringing the final total to $90.1 million.

General purpose revenue (GPR) expenditures were $5.070 billion compared to $4.868 billion in 1985-86, an increase of $202 million, or 4.2 percent. Payments to local communities and school districts rose by $128.6 million (4.6 percent increase over the prior year) and made up the largest portion of the increase. Payments for aids to individuals and organizations rose by $39.1 million (4.0 percent increase over the prior year). Increases in the cost of operations of state government, including the University of Wisconsin, increased by $34.6 million (3.1 percent over the prior year), although state operations as a percent of total GPR spending decreased from 22.9 percent in fiscal year 1986 to 22.7 percent in fiscal year 1987 and is continuing the trend of prior years.

The state chose again to issue operating notes in fiscal year 1987 to meet short-term cash needs. Operating notes of $350 million were issued July 31, 1986 and were repaid on June 15, 1987. Operating notes are the least expensive method of ensuring that large local assistance payments can be provided at the beginning of each fiscal year before all state revenues are received. The issuance of operating notes once again resulted in net savings to the General Fund, through increased investment earnings and reduced interfund borrowing costs, of $6.3 million.

Wisconsin has taken significant steps to improve state budgeting and limit state spending. The 4.2 percent spending increase in fiscal year 1987 was the fourth lowest increase in more than twenty years. Introducing a revenue bill before the budget bill, budgeting on an annual basis rather than biennially and implementing reduced base budgeting will ensure that future spending is controlled. Wisconsin is committed to efficient and effective fiscal management.

Respectfully submitted,

James R. Klauser
Secretary
Department of Administration

George R. Natzke, CPA
Director, State Bureau of
Financial Operations

Economic Section

Dog-sled racing, long associated with Alaska, has joined Wisconsin's list of winter competitive sports, taking its place with skiing, snowmobiling and snowshoeing. Sled races, like this one near Land O'Lakes, are also held at Shawnee and Sayner in February.

THE YEAR IN SUMMARY

REVENUE HIGHLIGHTS

General purpose tax revenue for the fiscal year ending June 30, 1987 totaled $4.927 billion (does not include $28.2 million Utility Tax rebate budgeted in prior year). Total collections for the year were within one-half of one percent of the May 1987 revised estimates used in developing the 1987-88 Budget Bill (1987 Wisconsin Act 27). These results are consistent with the historical margin of error for estimates with a similar forecasting time frame. Actual collections exceeded estimates by $19.7 million. Most of this difference was accounted for by the individual income tax ($15.3 million) and the corporate franchise and income tax ($5.7 million). Total collections increased 3.2 percent from the prior year figure of $4.776 billion.

Individual Income Tax: Individual income tax collections in FY 1986-87 totaled $2.224 billion, or 0.7 percent less than the $2.239 billion collected in FY 1985-86. However, collections were $15.3 million (about 0.7 percent) higher than anticipated in the revised May 1987 estimates. The decline from FY 1985-86 is due to tax changes enacted in 1985 and certain nonrecurring factors. Had it not been for the benefit of increased activity due to federal capital gains changes related to federal income tax reform enacted in 1986, the decline would have been significantly greater.

The largest component of individual income tax collections — withholding from wages and salaries — increased 3.5 percent from $1.965 billion to $2.034 billion. Withholding increased at a rate of about 1.6 percent during the first half of the fiscal year and about 5.4 percent during the last half. The lower growth rate in the first half reflected the withholding tables that were put into effect in January 1986 to implement the income tax reform and reduction enacted in 1985. Estimated tax payments (declarations) increased 4.2 percent in FY 1986-87 from $356 million to $370.9 million. These results included an exceptional 30 percent increase in April and a more modest 14 percent increase in June.

Additional and delinquent collections from audit and compliance activities decreased 1.5 percent from $58.8 million to $57.9 million. The previous fiscal year benefitted from about $8 million collected as part of the tax amnesty program.

A major state income tax reduction and reform plan was enacted which is effective for the 1986 tax year, and some further changes are effective for 1987. Features of the state tax reform program include:

1. Joint returns for married persons similar to the federal system rather than the previous state system of separate taxation of spouses.
2. An increased standard deduction that declines as income increases.
3. Reduction of the number of tax brackets from 8 to 4 for 1986 and to 3 for 1987, and reduction of the top rate from 10 percent to 7.9 percent for 1986 and to 6.93 percent for 1987.
4. Repeal of itemized deductions and replacement with a 5 percent itemized deduction credit.
5. Replacement of $20 personal exemption credit for taxpayer, spouse and dependent by a $50 dependent credit.
6. Provision of a one-time 7.9 percent credit on up to $2,000 on nonbusiness property taxes paid on the principal residence for 1986 only. For 1987 and thereafter, the credit was re-established, named the "School Property Tax Credit," and changed to 6.9 percent.
7. A married person credit of 2.5 percent of the earned income of the lower earning spouse (maximum $450).
8. Indexing of tax brackets and the sliding scale standard deduction, if inflation exceeds 3 percent and certain general fund balances are maintained, which was to begin in 1987, has been repealed.
9. Closer conformity with the federal definition of adjusted gross income.

General Sales and Use Tax: Collections from the sales and use tax increased 7.0 percent from $1.543 billion to $1.652 billion, or $8.1 million less (−0.5 percent) than the May 1987 revised estimate.

The growth rate of sales tax payments declined from about 8 percent during the first half of the fiscal year to about 5 percent during the last half. The pattern of quarterly sales tax collections was affected by auto incentive programs and by consumers taking advantage of the sales tax deduction in 1986 before its elimination in 1987 as part of the federal tax reform. Additional and delinquent collections increased an exceptional (and unsustainable) 21.4 percent from $53.7 million to $65.1 million despite the fact that the previous year benefitted from about $11 million collected as part of the tax amnesty program.

Corporation Franchise and Income Tax: Corporate tax collections increased 15.5 percent from $407.6 million in FY 1985-86 to $470.7 milion, or $5.7 million (1.2 percent) more than the May 1987 revised estimate. Most of the growth was the result of an acceleration of payments from audit activities and federal tax reform. Collections of estimated payments (declarations), which reflect current profits, increased only 5.9 percent from $397.3 million to $420.8 million. A 1986 law change which shifted the due date for the fourth estimated payment from the first month of the corporation's next fiscal year to the last month of the current fiscal year resulted in a one-time revenue gain of about $5 million in FY 1986-87.

Payments with returns, including significant payments with amended pre-1986 returns, increased 42.4 percent from $36 million to $51.2 million. Additional and delinquent collections increased 96.8 percent from $29 million to $57 million despite the fact that the previous year benefitted from about $6 million collected as part of the tax amnesty program. Refunds increased a modest 6.8 percent from $54.6 million to $58.3 million.

Excise Taxes: Cigarette tax collections increased 1.5 percent from $123.2 million to $125.1 million compared to the $124.4 million May estimate. While slightly higher than anticipated, results were still below the $125.3 million collected in FY 1984-85. Consumption is likely to decline in coming years, partly because of the 5 cent per package tax increase effective September 1, 1987, and partly because of a continuation of a national trend toward reduced consumption resulting from health concerns and increased federal tax rates.

Liquor tax collections increased 15.8 percent from $30 million to $34.7 million compared to the $35 million May estimate. The underlying trend of liquor consumption is essentially flat despite increased consumption of wine. The growth rate in FY 1986-87 was caused by a law change which replaced prepaid liquor stamps with a system of estimated tax payments. Beer tax collections increased 0.3 percent from $9.84 million to $9.867 million compared to the $10.1 million May estimate. Collections remained below the $10.3 million peak year of FY 1983-84. The 20 percent tobacco products tax yielded $3.998 million (a 2.5 percent increase) compared to the $4.1 million May estimate.

Inheritance and Gift Taxes: Inheritance and estate tax collections increased 14.6 percent in FY 1986-87 from $71.7 million to $82.1 million compared to the $82.5 million May estimate. Gift tax collections declined 3.2 percent from $3.6 million to $3.5 million compared to the $3.9 million May estimate. As part of the 1987 Budget Bill, the inheritance and gift taxes will phase-out over five years beginning with deaths and gifts occurring on or after January 1, 1988. The phase-out is achieved by reducing the inheritance and gift taxes calculated under old law by 20 percent in the first year, 40 percent in the second year, etc. By the fifth year, the gift tax will be eliminated, and the inheritance tax will be replaced by an estate tax which is equal to the credit allowed for state inheritance and estate taxes against the federal estate tax.

Public Utility Taxes: Public utility tax collections declined 13.27 percent from $262.3 million to $227.8 million (does not include $28.2 million Utility Tax rebate budgeted in prior year) compared to the May 1987 revised estimate of $221.8 million. FY 1986-87 results reflect a $24 million refund and $4.2 million of interest on that refund. Those amounts were reserved from the general fund balance as of the end of FY 1985-86.

The refund was made as the result of litigation on a state law change made in 1981. The disputed law change involved the elimination of property tax credits for certain utilities (largely gas and electric companies) which were, at that time, taxed on an ad valorem basis. Because gas and electric companies are now taxed on a gross receipts basis, the outcome of this litigation will have no significant effect upon tax collections in future years. Aside from the refund, utility collections declined 2.4 percent. This is attributed to stability in the gross receipts taxes for gas and electric utilities (declining sales of natural gas was offset by increasing electricity sales) and a decline in telephone company taxes resulting from tax rate reductions.

Insurance Company Taxes: Insurance company tax collections (generally based on premiums) increased 12.5 percent from $59.6 million to $67.0 million. This compares to the May 1987 estimate of $65.4 million. The increase, which follows a 22.2 percent increase in FY 1985-86, is attributed to a continuation of higher premiums charged by insurers to offset losses and reductions in investment income caused by declining interest rates experienced over the past several years.

Real Estate Transfer Fee: The state share of real estate transfer fees increased 27.7 percent from $14.25 million to $18.2 million following a 17.2 percent increase for the preceding fiscal year. The increase is partly related to federal law changes (e.g. capital gains) which encouraged closings of real estate transactions before the end of calendar year 1986.

EXPENDITURE HIGHLIGHTS

Overall state General Purpose Revenue spending in 1986-87 rose 4.2 percent as shown in Table 1. This is a decline from the 6.1 percent growth rate of 1985-86.

Within this spending increment, state operations expenditures grew 3.1 percent, or half the corresponding rate of 1985-86, with state employe pay increases accounting for all of the net increase. Local assistance expenditures growth of 4.6 percent was down from a 7.8 percent change in spending in 1985-86. Spending increases in aids to individuals and organizations, however, rose from 1.3 percent to 4 percent.

As can be seen from Table 1, the overall distribution of expenditures in 1986-87 continued recent trends that have seen local assistance increase its share of total state expenditures, and a decrease for state operations.

The GPR budget is shaped by the ten largest programs as illustrated in Table 2. Each of these programs is described immediately following this section. Any discussion of state spending must focus on the goals and expectations surrounding each of the top ten programs because of the large percentage of total state spending they represent.

Table 1
GPR Expenditures
($ Millions)
1986-87

	FY 86	% Total	FY 87	% Total	Change In Spending FY 86-FY 87	Percent Change
Local Assistance	$2,778.0	57.1%	$2,906.6	57.3%	$128.6	4.6%
Aids	972.2	20.0%	1,011.3	19.9%	39.1	4.0%
State Operations	1,117.8	22.9%	1,152.4	22.7%	34.6	3.1%
TOTAL	$4,868.0	100.0%	$5,070.3	100.0%	$202.3	4.2%

Table 2
TOP TEN PROGRAMS
GPR Expenditures

	1986-87 Amount	Percent of Total
All School Aids (Incl. aid credits & library system aids)	$1,352.3	26.7%
Shared Revenue	779.4	15.4%
UW System (Excl. debt service)	539.9	10.6%
Medical Assistance	468.6	9.2%
State Property Tax Credits (Excl. school aid credits)	304.1	6.0%
Community Aids (Incl. $24.5 million for General Relief)	225.5	4.5%
Income Maintenance Payments	225.0	4.4%
Homestead and Farm Tax Credit	138.1	2.7%
Correctional Services (Excl. debt service)	125.1	2.5%
VTAE Aids	76.4	1.5%
All Others	835.9	16.5%
TOTAL GPR EXPENDITURES	$5,070.3	100.0%